Richard Rose Wealth Management October 19, 2026

WEEKLY COMMENTARY **Richard Rose AIF®**

Good morning,

What's in this week's Report:

- How Big of a Problem is AI for this Market?
- Understanding Why Treasury Yields Dropped Last Week (Important)
- Weekly Market Preview: Can Tech Earnings Stabilize AI Sentiment?
- Weekly Economic Cheat Sheet: Flash PMIs the Key This Week
- Understanding the Biggest AI Risk
- The Real Reason Stocks Dropped on Wednesday (It Was CoreWeave, Not CPI)

Futures are modestly higher as tech stocks bounce from Friday's declines while oil prices dropped 1% overnight on hopes of diplomatic progress between Russia and Ukraine.

Tech stocks are seeing an oversold bounce ahead of key tech sector earnings reports this week (SPCX & META), but nothing materially "positive" occurred overnight.

Geopolitically, Russia has apparently proposed a Putin/Xi/Trump summit to negotiate a Ukraine deal that would ultimately produce a ceasefire.

Today, the only notable economic report is the Housing Market Index (E:31), and it shouldn't move markets, so focus will stay on geopolitics; any diplomatic progress on any of the three wars will be positive for markets.

Market	Level	Change	% Change
S&P 500 Futures	7,742.50	38.25	0.50%
U.S. Dollar (DXY)	101.72	0.07	0.07%
Gold	4,184.50	3.40	0.08%
WTI	98.01	-1.01	-1.02%
10 Year	5.106%	0.006	0.12%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks declined last week, but not because of the hot CPI and PPI. Instead, the market weakness was driven by the tech sector, as concerns that higher-for-longer yields would reduce AI capex spend, which would be an unexpected economic negative. The S&P 500 fell 1.94% on the week and is up 12.91% YTD (total returns).

Stocks started last week flat for both Monday and Tuesday, and rightly so, as there was no "game-changing" news. Banks kicked off the Q3 earnings season, and while some of the results weren't as strong as hoped for, none of them were "bad," and they didn't impact the broader market. Geopolitics, meanwhile, remains status quo (which is currently bad) as the Strait of Hormuz remains dangerous, the Houthis ramped up attacks on Saudi Arabia, and both Russia and Ukraine ignored the energy infrastructure ceasefire, again. The net result was a basically flat S&P 500 through Tuesday.

Something did change on Wednesday, however, as a sharp drop in AI darling CoreWeave (CRWV) debt sparked financing concerns not just for CRWV but for many smaller AI "neoclouds" and companies in the highest-growth parts of the AI boom. The basic concern is that many AI-linked companies will struggle to refinance and access debt capital, which could cut spending and hurt earnings outlooks across the tech spectrum (and economic growth). The Nasdaq dropped 2% on Wednesday, and that tech weakness pulled the S&P 500 lower by 1%.

Stocks rebounded after initially extending the weakness on Thursday, thanks to NVDA CEO Jensen Huang defending CRWV (a massive NVDA customer). CRWV turned positive midday, which led to a solid tech rebound and a higher S&P 500 close of 0.3%.

Stocks extended Thursday gains initially on Friday, but negative AI headlines again weighed on sentiment. Specifically, reports that Anthropic's IPO will be closer to $1.5T than $2.0T further weighed on expectations for continued AI capex and hit tech stocks hard, pulling the S&P 500 lower. The Nasdaq fell another 2%, pulling the S&P 500 down 1.1%.

How Big of a Problem is AI for This Market

Concerns about AI have stopped this market rally and pressured the S&P 500, which continued (and worsened) last week, and that is a near-term threat to the market.

Specific headlines kicked off this latest bout of AI anxiety, starting two Thursdays ago with the FT article that OpenAI revenue wasn't growing as fast as expected. That continued last week with the revelation that CoreWeave (CRWV) debt had declined and was now trading near distressed levels. Finally, on Friday, the report that Anthropic's IPO would be 25% smaller than expected ($1.5 trillion vs. $2.0 trillion) further hit tech stocks.

While each of these headlines reflected a specific concern about a specific AI company, they all shared a common concern: AI-related cap-ex, which supports earnings growth and broader economic growth, will begin to decline.

Think of it like fuel feeding an engine. For the engine to run faster, it needs more and more fuel. If the fuel flow is reduced, the engine can't run as fast.

The same goes for AI cap-ex. It's not that it's going away, but the rate of change matters. The OpenAI revenue concern, the potential difficulty for neoclouds and other AI companies to raise capital, and major IPOs being smaller than expected all point to a reduced flow of AI capex, and that is why the tech sector is down so hard over the past 10 trading days (and why the S&P 500 rally has stalled).

However, while it's caused pain in the tech space and has been a headwind on the market-cap-weighted S&P 500, it's not yet a major concern for markets. To that point, we can classify this, so far, as more of a "healthy cleansing" of some froth in the AI ecosystem than a major threat to broader earnings growth or economic activity.

For now, while the tech weakness isn't pleasant and likely not over (we'll need some positive reinforcement through earnings season), it appears to be focused on the "riskier" parts of the AI industry and those most vulnerable to small changes in growth, and not a bigger indictment of the broader AI bull market (at least not yet). Looking ahead, META earnings this week is the key AI event, and if META can reinforce positive trends in the AI industry, it should help the space stabilize.

Understanding Why the 10-Year Yield Fell Last Week (This Is Important)

The 10-year Treasury yield fell sharply despite the hot CPI and PPI reports last week, as concerns about an AI-driven slowdown in growth and debt issuance pressured Treasury yields (which were extended to the upside). The 10-year yield fell 14 basis points.

We must recognize that last week's decline in the 10-year yield had virtually nothing to do with CPI and PPI. Both metrics show inflation is a problem, and that means we're getting more rate hikes (in December). However, one of the significant factors in the rise in Treasury yields has been 1) Strong economic growth and 2) A surge in corporate debt issuance tied to AI, which has pushed all bond yields higher (more supply of debt lowers the price/increases the yields).

The CoreWeave scare from Wednesday pressured yields for two reasons. First, if parts of the AI industry start to "blow up" (e.g., neoclouds), that will cut AI-related cap-ex and reduce economic growth. That, in turn, would boost slowdown chances, which is positive for Treasuries. Second, if the financially weaker parts of the AI industry suddenly can't get financing/funding, that will reduce the expected amount of debt coming to market and force some fiscal restraint throughout the AI industry, which would be positive for bonds (less supply/higher prices) and negative for yields.

Those are the two reasons the 10-year Treasury yield fell last week, even though macroeconomic data implied yields should have risen.

Looking ahead, AI-related debt issuance is one reason yields have risen, and if that cools or slows, a tailwind will be removed from rising yields. However, we shouldn't expect this drop to continue apace, because over time, elevated inflation is still a bigger problem for long-term yields. For the 10-year yield to sustainably drop below 5.00%, we will need to see progress on inflation metrics.

Economic Data (What You Need to Know in Plain English)

Last Week

Economic data "ran hot" last week, but it wasn't hot enough to make an October Fed rate hike more likely, while concerns about AI spending pressured yields despite the strong data. Inflation was the major focus of markets last week, and the news wasn't good, as both CPI and PPI were hotter than expected.

Headline CPI rose 3.7% y/y vs. (E) 3.6% (and up from 3.4% in August), while the more important Core CPI rose 0.3% vs. (E) 0.2% m/m and 2.6% vs. (E) 2.5% y/y (up from 2.4% y/y). PPI, meanwhile, rose 6.3% vs. (E) 5.3% y/y while core PPI increased 0.7% vs. (E) 0.3% m/m. Both are solid increases from August and basically trash the idea that inflation pressures have peaked. They also make another rate hike in December as close to a certainty as it can be right now.

However, much of the inflation increase was driven by energy and commodity prices across CPI and PPI. To be clear, that's not all of it, but it was a lot of the pressure on inflation; because of that, and recent dovish commentary by Fed leadership, the market did not make an October rate hike materially more likely. Yes, odds rose, but not to the 70%-80% level that would imply high confidence of a hike. To that point, FedWatch shows just a 27% chance of a hike in October. As a result, the hot inflation data did not spike yields on Wednesday (or Thursday). While inflation is still a problem and we are getting more rate hikes, they likely aren't coming in October (so in this short-term-focused market, it wasn't a negative influence).

Turning to growth metrics, they were strong. Retail sales was the highlight last week and beat estimates, rising 0.8% vs. (E) 0.3%. The "Control Group," our best measure of discretionary consumer spending because it excludes gas, autos, and building materials, rose a slightly underwhelming 0.1% vs. (E) 0.3%. However, it's still positive growth, and there's nothing in this report that implies 1) Consumer spending suddenly dropped off or 2) Broader economic growth may be wavering (so it's a positive).

Other notable growth metrics last week included the first look at October economic activity via Empire and Philly Fed, and both were generally "fine." Empire (which measures manufacturing activity in the New York region) rose sharply to 25.5 vs. (E) 12.0. In contrast, Philly Fed (which measures manufacturing activity in the mid-Atlantic region) slipped to 20.9 vs. (E) 28.2, but remained far above zero (which signals expansion). Bottom line, neither metric implied a sudden drop-off in economic activity (to the contrary, both signaled continued robust activity).

Bottom line, last week's economic data was textbook for a "run-hot" economy, showing elevated inflation and strong economic growth. However, because yields rose sharply ahead of last week's data, it wasn't dramatically worse than feared nor did it make an October rate hike more likely, so the "hot" inflation and economic data didn't spike yields further and stocks rallied as a result.

Important Economic Data This Week

The economic calendar is very sparse this week, with only two notable reports, but one is potentially important, as it's the first look at national economic activity in October. If it runs hot, it could boost yields (and pressure stocks) given yields dropped last week.

The key report this week comes Friday via the October flash PMIs. Not only will the headline activity be in focus, but so too will the price indices, as jumps in the price indices correctly forecasted the hotter-than-expected CPI in September. Put plainly, if the price index rises further, it'll boost anxiety that inflation is still accelerating (and talk of a 50-bps hike in December will start, and that won't be good for stocks).

Outside of the flash PMIs, the only other notable number is weekly jobless claims. Still, they remain historically low and nowhere near levels that would imply labor market deterioration (that would be in the upper 200k and we're basically at 200k). Numerous companies last week cited low unemployment as the economic lynchpin that's helping consumers get through high inflation/prices. Hence, employment needs to stay strong if economic growth is going to remain consistent (and that's an underappreciated positive for markets).

Special Reports and Editorial

Understanding the Biggest AI Risk

I've said AI enthusiasm and geopolitics were the two dominant forces in this market. Today, I want to focus on why AI enthusiasm has taken a hit since last Thursday, because AI disappointment remains the biggest threat to this bull market (and I want to make sure we understand, specifically, what that looks like).

To understand the risks of AI disappointment, it's important to remember exactly how AI enthusiasm is pushing stocks higher.

Most people across global society (governments, corporations, households) believe AI is a revolutionary technology that will boost productivity, reduce inflation, and improve quality of life. Because of that, tech companies are racing to build AI programs that can capture market share among governments, corporations, and households.

OpenAI and Anthropic are the two biggest AI companies racing to build models, and they've become so important that each will likely IPO with valuations at or above $2 trillion, putting them among the most valuable companies in the world despite their relatively short existence.

To make AI more useful (and speed adoption and token usage/revenue), OpenAI and Anthropic are spending hundreds of billions to build the latest and greatest AI models (called frontier models). However, while OpenAI and Anthropic are the two most well-known AI companies, they are far from the only ones. Hundreds of U.S. and international AI companies (including hyperscalers GOOGL, META, MSFT, and others) are also racing to build frontier models.

The net result of this race has been a generational surge in demand for AI infrastructure (semiconductors, memory, networking, cloud storage), driving historic surges in the stocks of semiconductor, memory, networking, and cloud storage companies.

But spending goes far beyond chips and memory. Data center construction (needed to fuel the development of the next frontier models) is driving up prices for non-tech items as demand rises: land, electricity, water, wiring, plumbing, transportation, etc. That's led to earnings boosts for those companies as well.

All this spending has become a massive private stimulus plan for the economy, benefiting non-tech companies across the board. Essentially, AI data spend is fueling this resilient economy.

AI companies' spending is so large that it far exceeds the cash flow of even the largest tech companies in the world. The net result has been AI-linked companies coming to the capital markets to raise hundreds of billions in debt and equity financing. That, in turn, has benefited another non-tech industry: Financials (as they get increased fees).

So far, it's been a virtuous cycle. Between free cash flow and investor capital, AI companies spend hundreds of billions in the economy, which is fueling record earnings growth and strong economic growth. In contrast, capital markets supply the cash to keep it going. Meanwhile, governments, companies, and people get cheap, advanced AI. Stocks have surged, and the tech sector is "holding up" the S&P 500 amidst geopolitical risks.

However, this only continues to work if the proverbial band keeps playing. If the stream of capital (money) suddenly dries up from investors, AI companies, or hyperscalers, the earnings growth and economic strength the entire bull market is built on will fracture as the stimulus supporting broad economic growth slows (or stops).

Bottom line: capital has to keep flowing into AI-linked companies, and they have to keep spending. If they slow or stop, this market is in serious trouble (like bear-market trouble, because outside of AI there are a lot of issues that aren't good for risk assets).

Here are three ways that could happen (and the parts of tech that would be hurt the most).

Reason 1: AI becomes a commodity. There's little question that AI is a revolutionary technology that will benefit society in countless ways, but that doesn't mean it's a profitable industry. Frontier model buildout is key to the data center boom, but growing concerns suggest spending on frontier models may not deliver a good ROI.

First, the competition is intense. Hundreds of AI companies globally are building the latest models, and they constantly leapfrog each other. But despite this competition to create the "best" AI model, it's unclear whether the margins on the best models justify the spend. No model stays the best for long, and cheap open-source models (from the U.S. and China) that do "most" of the frontier model work can sap demand and operate at a much lower price (this was the DeepSeek fear from 18 months ago, and it's still there).

Second, there are shallow "moats" around the frontier models and each company's models in general. A lot of AI can be reverse-engineered with AI, so while OpenAI may have the best model now, it may be surpassed in a week by Anthropic, Gemini, or a Chinese company.

Meanwhile, for the vast majority of AI users, they don't really care which "back-end model" they are using. The point is, there's little evidence of strong model loyalty beyond habit (which can go away quickly if consumers or businesses start being charged higher prices).

Bottom line: AI is amazing, but so were electricity, railroads, and air travel. But they were all commoditized. If that happens, companies will pull back on data center spend (which would threaten AI Enthusiasm).

Reason 2: Capital Markets Revolt. The amount of money being required to build out frontier models is rising, not falling, as AI companies climb over each other to pay more to secure chips, memory, networking, cloud capacity, etc.

Neither pure AI companies nor the hyperscalers have the cash flow to fund this spending, and they're relying mostly on corporate bond markets to fill the gap. However, signs suggest capital markets are becoming exhausted by rising capital demands. The AI industry may need more "proof" of strong ROI before investors will commit substantially more capital.

For example, the two biggest AI companies in the world, OpenAI and Anthropic, may not be able to go public this year at the valuations they want because of concerns about valuation and future trends. On the debt side, the cost of raising AI-related debt is rising, and spreads on data center secured debt are increasing as investors demand more reward for the risk of lending AI companies money.

Bottom line: If capital markets revolt against the AI industry's never-ending capital demands, that will reduce data center investment and jeopardize the AI-driven stimulus supporting this market.

Reason 3: Hyperscalers Vertically Integrate. Hyperscalers such as META, GOOGL, MSFT, and others are some of the biggest spenders on AI infrastructure/data center buildout. If their spending slows, it will hurt AI companies and the broader economy.

Until recently, many hyperscalers used OpenAI or Anthropic AI models as a "back end" to support AI demand on their platforms. Meanwhile, the hyperscalers were spending billions to secure NVDA, TSM, AVGO chips and MU, WDC, and SNDK memory. However, as prices surged, these hyperscalers are now 1) starting to rely on different, cheaper AI models as their AI back end, 2) building out their own LLMs to save on token fees, and 3) building their own chips to avoid paying hundreds of billions to semiconductor companies.

If the hyperscalers turn inward, that will remove a major source of spending on AI infrastructure and token usage for pure AI companies. That will be revenue negative across the AI spectrum as hyperscalers stop buying chips, memory, and tokens from other companies and keep the money in-house. That revenue loss would hit AI infrastructure companies and AI companies as their growth outlooks would fall quickly. That said, it would benefit the hyperscalers themselves (as they'd save a lot of costs).

Bottom line: AI enthusiasm is the greatest bullish force in this market, and it is almost single-handedly fueling the earnings growth and resilient economy that's behind the bull market. But for it to continue, AI companies have to keep getting capital, which then gets spent throughout the economy via data center buildout. If that capital begins to dry up for any of the three reasons listed above, it's not just negative for tech and AI companies; it's negative for the entire market and economy, and that's currently the biggest risk to the AI-driven bull market.

The Real Reason Stocks Dropped on Wednesday (It Was CoreWeave, Not CPI)

Last Wednesday, concerns about funding for AI "neoclouds" pressured the tech sector, dragging the S&P 500 lower.

The biggest and best-known neocloud is CoreWeave (CRWV), a company that essentially leases processing power to AI companies to support model advancement and development. CoreWeave essentially is helping to fill a gap between the enormous demand for computing power from hundreds of AI companies that can't (or don't want to) build out their own AI infrastructure.

However, as prices have risen for AI infrastructure (chips, memory, etc.), CoreWeave's costs have risen, as have its funding needs (CRWV borrows money to buy the AI infrastructure it leases out). With rates and costs rising, concerns are growing that CoreWeave and other neoclouds will struggle to secure financing to expand and service existing debt.

CoreWeave fell 15.5% on Wednesday on financing concerns as credit default swaps on the debt rose sharply. That, in turn, weighed on all of tech. To show how interconnected AI companies are, fears are that if neoclouds like CoreWeave have trouble securing financing, they will cancel orders for chips, memory, networking, and token usage. That, in turn, will reduce the order backlog for companies such as Nvidia, Micron, Open AI/Anthropic, and others.

Put simply, weakness in the growthier AI companies such as neoclouds on Wednesday underscores this reality: AI companies need a constant flow of investor capital to fuel the AI cap-ex spending that's supporting the economy and earnings growth.

Wednesday's move up in CRWV CDS spreads doesn't mean capital is drying up, but it does reinforce that if it does (or even just reduces), the earnings growth underpinning the entire rally will be in trouble.

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